



# City of Diamond Bar

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[www.CityofDiamondBar.com](http://www.CityofDiamondBar.com)

May 22, 2008

Mr. Robert Grossman  
Group Managing Director  
U. S. Public Finance  
Fitch Ratings  
33 Whitehall Street, 27<sup>th</sup> Fl.  
New York, NY 10004

**RECEIVED**

**MAY 28 2008**

**TREASURER  
STATE OF CALIFORNIA**

**SUBJECT:** Municipal Bond Rating System Reform

Dear Mr. Grossman,

Recently, the Diamond Bar City Council adopted Resolution 2008-15 (copy enclosed) urging your company to end the double standard in the treatment of municipal and corporate bonds. The City of Diamond Bar supports California State Treasurer Bill Lockyer and the League of California Cities in the Campaign to Reform Municipal Bond Ratings.

Rating agency studies show that the likelihood of default by municipal borrowers is much lower than for corporate borrowers with similar ratings. Ratings should be based primarily on an evaluation of the likelihood investors will suffer a loss due to default. Unfortunately, for municipal bonds, they are not. The current system of assigning credit ratings to bonds issued by governmental entities is inequitable and costs taxpayers enormous amounts of money that could be invested in public programs and infrastructure.

The City Council urges you to treat taxpayers the same as corporations and rate municipal bonds based on the risk of default. Finally, we urge you to do this by creating a unified, global rating approach that treats all issuers equally, thereby better serving taxpayers and investors.

Sincerely,

Jack Tanaka  
Mayor

CC: City Council/CM/ACM  
State Treasurer Bill Lockyer  
League of California Cities  
Joe A. Gonsalves & Son

**Jack Tanaka**  
Mayor

**Ron Everett**  
Mayor Pro Tem

**Wen P. Chang**  
Council Member

**Carol Herrera**  
Council Member

**Steve Tye**  
Council Member

## RESOLUTION 2008- 15

### RESOLUTION SUPPORTING REFORM OF THE BOND RATING SYSTEM TO ELIMINATE INEQUITABLE STANDARDS AGAINST MUNICIPAL BONDS

WHEREAS, the recent turmoil in the municipal bond markets has brought into focus the higher standards imposed by the three major bond rating agencies in rating municipal bonds compared to corporate bonds, mortgage-backed securities and other debt instruments; and

WHEREAS, issuers of municipal bonds rarely default on the bonds they sell to finance streets and roads, public buildings, bridges, flood protection and water systems, and other critical infrastructure, yet municipal bond ratings fail to reflect that fundamental fact; and

WHEREAS, the rating agencies even acknowledge this disparity, but ignore it in their ratings, such as Standard & Poor's acknowledgement that the historic rate of defaults of A-rated municipal bonds is 0.23 percent, while that of corporate bonds is 2.91 percent - or 13 times greater; and

WHEREAS, despite the relative default rates shown by their own data, the rating agencies continue to impose inequitable standards against municipal issuers, requiring public agencies to secure expensive bond insurance in order to secure bond ratings comparable to those of private corporations; and

WHEREAS, the rating agencies base their ratings of corporate bonds on the risk the issuer will default, while the ratings of municipal bonds have little relationship to the risk of default; and

WHEREAS, a coalition of state and local public agencies, led by California State Treasurer Bill Lockyer, has called on the three major rating agencies to examine their practices and treat municipal bonds on par with corporate bonds that expose investors to the same level of risk; and

WHEREAS, Moody's has taken the greatest strides, announcing it will assign a corporate-equivalency rating (what it calls a global scale rating or GSR) alongside the traditional municipal rating to any municipal bond at the issuer's request; and

WHEREAS, the current double-standard by rating agencies: (1) drains billions of dollars from taxpayers' pockets in the form of unfairly high interest rates; (2) forces taxpayers to pay even more money to buy bond insurance – insurance they would not have to purchase if municipal bond ratings accurately reflected the slight risk of default; (3) misleads investors by grossly inflating the risk of buying municipal bonds; and (4) undermines the effective functioning of a transparent market.

THEREFORE, BE IT RESOLVED that the City Council of the City of Diamond Bar calls on the major municipal bond agencies to end the double standard in the treatment of municipal and corporate bonds; to treat taxpayers the same as corporations and rate municipal bonds based on the risk of default; to create a unified, global rating approach that treats all issuers equally, and better serves taxpayers and investors; and direct staff to notify the municipal bond rating agencies by letter of the adoption of this resolution and to register the City as a member of the coalition of public

agencies supporting the nationwide effort to reform how bond rating agencies grade state and local bonds.

PASSED, APPROVED, AND ADOPTED this 20th day of May, 2008.



Jack Tanaka, Mayor

I, Tommye A. Cribbins, City Clerk of the City of Diamond Bar, California, do hereby certify that the foregoing Resolution No. 2008-15 was duly and regularly passed and adopted by the City Council of the City of Diamond Bar, California, at its regular meeting held on the 20th day of May, 2008, by the following vote, to wit:

AYES:	COUNCILMEMBERS:	Chang, Herrera, Tye, MPT/Everett, M/Tanaka
NOES:	COUNCILMEMBERS:	None
ABSENT:	COUNCILMEMBERS:	None
ABSTAIN:	COUNCILMEMBERS:	None



Tommye A. Cribbins, City Clerk  
City of Diamond Bar

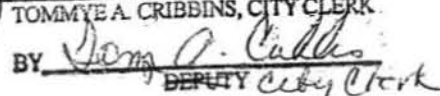
COUNTY OF CALIFORNIA }  
COUNTY OF LOS ANGELES } ss  
CITY OF DIAMOND BAR

I, TOMMYE A. CRIBBINS, CITY CLERK OF THE CITY OF DIAMOND BAR, DO HEREBY CERTIFY UNDER PENALTY OF PERJURY UNDER THE LAWS OF THE STATE OF CALIFORNIA THE FORGOING TO BE A FULL, TRUE AND CORRECT COPY OF THE ORIGINAL AS SAME APPEARS ON FILE IN MY OFFICE.

IN WITNESS WHEREOF, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE SEAL OF THE CITY OF DIAMOND BAR, THIS 20th DAY OF May, 2008

TOMMYE A. CRIBBINS, CITY CLERK

BY

  
DEPUTY CITY CLERK